

PAW PAW DISTRICT LIBRARY

Report on Audit of Financial Statements
For the Year Ended
December 31, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Paw Paw District Library	County Van Buren
Audit Date 12-31-05	Opinion Date 1-26-06	Date Accountant Report Submitted to State: 4-03-06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

RECEIVED
DEPT. OF TREASURY

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

APR 07 2006

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including comments and recommendations.

LOCAL GOVT. & FINANCE DIV.

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Cutting & Cutting, P.C.			
Street Address 303 Paw Paw St.	City Paw Paw	State MI	ZIP 49079
Accountant Signature <i>James T. Cutting</i>		Date 4-3-06	

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WILLIAM A. CUTTING
BRUCE T. CUTTING

TELEPHONE
269-657-4720

January 26, 2006

INDEPENDENT AUDITOR'S REPORT

To the Paw Paw District Library Board
Paw Paw, Michigan

We have audited the accompanying financial statements of Paw Paw District Library as of December 31, 2005, and for the year then ended. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the Library's governmental activities are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Paw Paw District Library, as of December 31, 2005, or the changes in its financial position for the year then ended.

Cutting & Cutting, P.C.

STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES - CASH BASIS
GENERAL FUND
PAW PAW DISTRICT LIBRARY
December 31

	<u>2005</u>	<u>2004</u>
Assets		
Cash and equivalents	\$ 552,217	\$ 436,371
Property taxes receivable	<u>540,741</u>	<u>490,084</u>
Total current assets	1,092,958	926,455
Restricted assets	<u>2,500</u>	<u>2,513</u>
	\$ <u>1,095,458</u>	\$ <u>928,968</u>
Liabilities and Fund Balance		
Deferred revenue	\$ <u>540,741</u>	\$ <u>490,084</u>
Total liabilities	540,741	490,084
Fund balance		
Reserved	302,500	302,513
Unreserved	<u>252,217</u>	<u>136,371</u>
Total fund balance	<u>554,717</u>	<u>438,884</u>
	\$ <u>1,095,458</u>	\$ <u>928,968</u>

STATEMENT OF CHANGES IN FUND BALANCES - CASH BASIS
Years ended December 31

	<u>2005</u>	<u>2004</u>
Revenues	\$ 615,187	\$ 614,275
Expenditures	<u>499,354</u>	<u>463,992</u>
Excess of revenues over expenditures	115,833	150,283
Beginning fund balance	<u>438,884</u>	<u>288,601</u>
Ending balance	\$ <u>554,717</u>	\$ <u>438,884</u>

See notes to financial statements.

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL - CASH BASIS
GENERAL FUND
PAW PAW DISTRICT LIBRARY
Year ended December 31

	<u>2005</u>		Variance Favorable (Unfavorable)	<u>2004</u>
	<u>Amended Budget</u>	<u>Actual</u>		
Revenues				
Property taxes	\$ 530,950	\$ 512,621	\$ (18,329)	\$ 522,812
State aid	10,750	9,855	(895)	16,207
Revenue sharing		3,246	3,246	3,246
Photocopying	2,000	2,244	244	2,135
Penal fines	57,000	62,691	5,691	55,860
Fines	7,000	6,686	(314)	7,610
Interest	2,700	16,030	13,330	4,257
Donations	1,000	1,018	18	1,441
Miscellaneous	<u>600</u>	<u>796</u>	<u>196</u>	<u>707</u>
	\$ <u>612,000</u>	\$ <u>615,187</u>	\$ <u>3,187</u>	\$ <u>614,275</u>
Expenses				
Salaries, fringe benefits, and related items	\$ 381,000	\$ 341,234	\$ 39,766	\$ 321,773
Supplies	17,200	14,394	2,806	12,668
Professional and contracted services	18,000	16,243	1,757	7,194
Telephone and utilities	28,600	22,237	6,363	18,064
Books, tapes and magazines	74,200	49,252	24,948	52,799
Travel and seminars	14,000	8,793	5,207	7,320
Insurance	8,000	7,302	698	7,046
Repairs	22,000	17,514	4,486	15,972
Capital outlay	56,600	18,259	38,341	19,067
Special events		(471)	471	957
Miscellaneous	1,400	1,328	72	1,132
Election	3,270	3,269	1	
Contingency	<u>12,730</u>	<u></u>	<u>12,730</u>	<u></u>
	\$ <u>637,000</u>	\$ <u>499,354</u>	\$ <u>137,646</u>	\$ <u>463,992</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
PAW PAW DISTRICT LIBRARY
December 31, 2005

Summary of significant accounting policies

The accompanying financial statements and budget information have been prepared using the cash basis of accounting.

A. Reporting Entity

During 1987 the electors voted to become a district library. The District conforms to the boundaries for the Paw Paw Public Schools, and includes a portion of the following townships: Alma, Antwerp, Lawrence, Paw Paw and Waverly. On August 11, 1987, at a special election, the electors voted to levy not more than one mill for twenty years. On June 13, 1994, the electors voted an additional .3 mill for library operations. In June, 1997 the electors voted an additional .5 mill for library operations. The Library's financial statements include the accounts of all library operations. The criteria for including organizations within the Library's reporting entity, as set forth in GASB No. 14, "The Financial Reporting Entity", is financial accountability.

B. Fund Accounting

The accounts of the Library are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures.

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the Library. It is used to account for all financial resources except those required to be accounted for in another fund.

C. Deposits and Investments

Michigan Compiled Laws, Section 129.91 (Public Act. 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

<u>Deposits</u>	<u>Amount On Deposit</u>	<u>Carrying Value</u>
Insured	\$ 200,000	\$ 200,000
Not insured	358,807	354,617

Custodial credit risk is the risk that in the event of a bank failure, the library's deposits may not be returned to it. The library does not have a deposit policy for custodial credit risk. At year end, the library had \$358,807 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized.

D. Restricted assets contains the following amount:

Powless Memorial	\$ 2,500
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During 2004 the Library Board added \$100,000 to their previously reserved fund balance for capital improvement purposes. The current reserved fund balance is now \$300,000. This figure plus the Powless Memorial equals the \$302,500 in reserved fund balance as shown in the financial statement.

- E. Possible Property Purchase
Included in capital outlay this year is a \$5,000 option payment to a local property owner. This payment secured the library's ability to purchase the property as a possible building site under certain terms. The purchase is dependent on several factors.
- F. Property Taxes
Property taxes attach as an enforceable lien on property as of December 31. Taxes are levied on the following December 1 and are due on February 14. Taxes levied by the Library are collected by various townships and periodically remitted to the Library. The 2005 tax rate levied was 1.5974 mills.
- G. Budgets
Budgets are adopted on the cash basis and are amended from time to time.
- H. Risks
The Library is subject to certain risks of property loss, liability and personal injury. The Library has purchased various policies from commercial insurance companies to cover these risks.
- I. Change in Reporting Format
GASB 34 requires certain governmental units to change their reporting format to allow for recognition of physical assets, depreciation expense and certain other items. The Library has not adopted this format.

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January 26, 2006

Paw Paw District Library
Paw Paw, Michigan 49079

The audit work necessary to express an opinion on the financial statements of Paw Paw District Library included a review of the Library's accounting procedures and the related internal controls. As a result of this review we offer comments and recommendations for your consideration.

Unlawful Expenditures

A small monetary amount was donated to a non-profit organization for the benefit of hurricane Katrina victims. The State of Michigan prohibits these donations by Michigan governmental units. The amount included library funds as well as funds donated by patrons.

Internal Controls

There is not adequate segregation of duties in the accounting function. However, because of lack of personnel, this situation is not unusual in small governmental units.

The above comments are submitted to you to develop good accounting practices and are not intended to reflect upon the performance of any Library employee.

Cutting & Cutting, P.C.